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Referendum 52: $505 Million to Fund Energy Savings at Universities, Colleges, and Public Schools

Briefly

Referendum 52 would add $505 million to the state debt — outside the debt limit — to pay for energy saving improvements in schools.

In November, voters will be asked to consider Referendum 52, which would authorize a $505 million bond issue to fund energy saving improvements to public schools and state colleges and universities. The debt service on these bonds would be funded by making permanent the sales tax on bottled water. Thus, Referendum 52 interacts with another initiative on the ballot this fall (I-1107), which would repeal the tax on bottled water.

The referendum, or EHB 2561, was introduced in the legislature by Rep. Hans Dunshee (D-44th District). It was passed in April, with the proviso that it be submitted to the people of Washington for their approval or rejection.

The intent of the act is to "create jobs in every corner of Washington state by issuing bonds, which will catalyze energy savings and repair work at public schools and state colleges and universities." The language sanguinely states that "these investments both accelerate innovation in the energy efficiency sector and create locally developed technologies and companies to provide sustainable jobs."

The act further contends that "these job-creating projects save taxpayers money, with an estimated $126 million saved each year in public schools through reduced energy and operation costs, and improve the health and safety of those buildings."

Bonds Issued

The act authorizes the state finance committee to issue $505 million in state general obligation bonds, of which the Office of Financial Management (OFM) estimates $503.3 million would be available over five years (the remainder covers the cost of bond issuance). OFM estimates that Referendum 52 would increase debt service costs: "Twenty-nine-year debt service costs are estimated to total $937 million, for an average annual state cost of $32.3 million." The debt service costs for 2012–2016 would total $86.4 million. The act creates the Washington Works Account to hold all receipts from the bonds and appropriates $500 million for Fiscal Year 2011.

Grants

The appropriation is for "grants to public school districts and public higher education institutions for energy and operational cost savings improvements to public facilities and related projects that result in energy and operational cost savings under the provision."

The act delineates how grants will be awarded to schools by the Department of Commerce. It specifies that grants will be awarded in competitive rounds, with at least five percent of each round awarded to small public school districts. Within each round, projects must be prioritized in this order: (1) the leverage ratio of non-state funding sources to state jobs act grant; (2) energy savings; and (3) project readiness to spend funds.

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OFM estimates that costs associated with developing and administering the grant program would average $2.2 million annually. Such costs include salaries and benefits, grant administration and workshops, and supplies. The costs would be incurred by the state Department of Commerce, Department of General Administration, and the Washington State University Energy Program.

Interestingly, the grant expenditures would not exhaust the proceeds of the bonds: After the program's last grant expenditures, the Washington Works Account would hold $6.6 million. The initiative allows this money to be used for administrative expenses.

Making the Bottled Water Tax Permanent

To pay for some of the "increased debt service costs for voter-approved bonds and for debt-limit bonds authorized by the legislature for projects awarded grants . . . for energy efficiency projects in public facilities," the legislature would increase general state revenues by making the sales tax on bottled water permanent. In April, the legislature enacted 2ESSB 6143, which raised numerous taxes, including a temporary extension of the sales tax to bottled water (which will be in effect until July 1, 2013). Referendum 52 would make that tax permanent.

OFM estimates that extending the sales tax on bottled water would "increase State General Fund revenues an annual average of $39.8 million and increase local government revenues an annual average of $14.9 million." Revenues from the sales tax go to three places: the state General Fund, the state Performance Audit account, and local governments. Over the first five years (2014-2018) of making the sales tax on bottled water permanent, state General Fund revenues would increase by $199 million, state Performance audit account revenues by $325,000, and local revenues by $74 million. Because the revenues from the sales tax extension would not kick in until 2014, Referendum 52 would actually be a drain on the state General Fund until then.

Relying on the revenues from making the tax permanent becomes problematic because of another matter on the November ballot: I-1107. If approved, I-1107 would repeal some of the taxes imposed in 2ESSB 6143, including the tax on bottled water. Consequently, it would be impossible to make the tax permanent, as written in Referendum 52. Supporters of Referendum 52 argue that if that were to happen, the legislature would simply determine another funding source.

State Debt Level

According to a May 2010 report from Moody's, Washington's total net tax-supported debt in 2009 was $14.8 billion. That makes us eighth in the country, behind California, New York, New Jersey, Massachusetts, Illinois, Florida, and Connecticut. Washington's $2,226 in net tax-supported debt per capita is also very high (less than only Connecticut, Massachusetts, Hawaii, New Jersey, New York, Delaware, and California).

Given Washington's already high debt level, a main source of concern with Referendum 52 is that it would increase state debt. The state constitution sets a limit on allowable debt:

> The aggregate debt contracted by the state shall not exceed that amount for which payments of principal and interest in any fiscal year would require the state to expend more than nine percent of

> the arithmetic mean of its general state revenues for the three immediately preceding fiscal years as certified by the treasurer.

However, Article VIII, Section 3 allows for voter-approved bonds outside the debt limit:

> Except the debt specified in sections one and two of this article, no debts shall hereafter be contracted by, or on behalf of this state, unless such debt shall be authorized by law for some single work or object to be distinctly specified therein. No such law shall take effect until it shall, at a general election, or a special election called for that purpose, have been submitted to the people and have received a majority of all the votes cast for and against it at such election.

Therefore, the debt issued by Referendum 52 would be allowable whether or not the referendum puts the debt over 9 percent.

For reference, this year the Office of the Treasurer estimated that the maximum amount of debt that could be issued in 2012 would be $1.12 billion. Since that projection, revenue forecasts, interest rates, and budget changes have occurred, but it provides a useful point of comparison when considering the bond authority in Referendum 52. Again, the new debt proposed is $505 million.

OFM only estimated the revenue impact from making the sales tax on bottled water permanent out to 2018, but they expect those revenues to increase year over year. Conversely, the debt service costs hit $37.5 million a year in 2016 and stay at that level until 2037, when they start decreasing. Revenues from the bottled water tax pay for the entire debt service cost immediately and continue to rise. This means that Referendum 52 raises excessive taxes on Washingtonians, even if they agree that the spending on energy savings projects is worthwhile.

State Revenues and Debt Costs, under Referendum 52

Millions of Dollars

	2011	2012	2013	2014	2015	2016	2017	2018
Bonds Issued	$5.0	$70.0	$150.0	$150.0	$130.0			
Cost of Bond Issuance	$0.0	$0.2	$0.5	$0.5	$0.4			
Net to WWA	$5.0	$69.8	$149.5	$149.5	$129.6			
Grant Expenditures		$17.4	$130.6	$149.4	$144.4	$55.0		
Admin. Expenditures	$0.8	$2.7	$2.7	$2.4	$2.4			
Tax Revenues				$33.9	$38.6	$40.3	$42.2	$44.1
Debt Service Costs		$0.3	$5.2	$16.1	$27.4	$37.5	$37.5	$37.5
Net GF-S Impact:								
w/o Admin Exp	$0.0	($0.3)	($5.2)	$17.8	$11.2	$2.9	$4.7	$6.6
w/ All Admin Exp	($0.8)	($3.0)	($7.8)	$15.4	$8.8	$2.9	$4.7	$6.6

The table on the left shows the effects of Referendum 52 on the state General Fund. Because it is not clear whether administrative costs would be paid for out of the Washington Works Account or from the General Fund, the impacts of the two options are shown.

Discussion

Referendum 52 is essentially a temporary stimulus at the state level. It would provide funds for specific projects in order to employ people for a temporary amount of time—there are only so many schools to be updated. It has been framed in a positive-sounding way: "energy savings", "sustainable", "jobs created", et cetera. But we have concerns about how much of these savings will actually be realized. If there is so much low hanging fruit, why hasn't it been picked yet?

There are fiscal concerns as well. It is not clear whether the bond amount in Referendum 52 would in fact exceed the state debt limit. Even so, if approved by voters, the bond authority would be outside the state debt limit, thereby freeing up space for competing projects (and future debt). Further, making the sales tax on bottled water permanent would increase revenues to the state general fund over and above the debt service costs it is meant to cover.

References

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